EDUCATIONAL DEVELOPMENT CORP
Form 10-Q
January 14, 2010

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended November 30, 2009

OR

o **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to .

Commission file number: 0-4957

EDUCATIONAL DEVELOPMENT CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**73-0750007**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
10302 East 55th Place, Tulsa, Oklahoma	**74146-6515**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code **(918) 622-4522**

Indicate by check mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer , accelerated filer , and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o	Smaller reporting company x

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes o No x

As of January 13, 2010 there were 3,878,307 shares of Educational Development Corporation Common Stock, $0.20 par value outstanding.

PART I. FINANCIAL INFORMATION

ITEM 1

EDUCATIONAL DEVELOPMENT CORPORATION

CONDENSED BALANCE SHEETS (UNAUDITED)

	November 30, 2009	February 28, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,756,800	$ 2,896,200
Accounts receivable, less allowance for doubtful accounts and sales returns of $222,100 (November 30) and $176,900 (February 28)	4,197,300	3,253,000
Inventories Net	11,275,400	10,302,600
Prepaid expenses and other assets	293,800	306,800
Deferred income taxes	263,300	225,500
Total current assets	17,786,600	16,984,100
INVENTORIES Net	546,000	568,000
PROPERTY, PLANT AND EQUIPMENT Net	2,177,700	2,278,400
OTHER ASSETS	59,900	60,400
DEFERRED INCOME TAXES	32,700	50,500
TOTAL ASSETS	$ 20,602,900	$ 19,941,400
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 2,261,200	$ 2,653,200
Accrued salaries and commissions	820,300	504,500
Current maturities of long-term debt	150,000	150,000
Income taxes payable	602,200	102,200
Dividends payable	581,700	
Other current liabilities	553,000	486,200
Total current liabilities	4,968,400	3,896,100
LONG-TERM NOTES PAYABLE, net of current maturities	150,000	150,000
COMMITMENTS		
SHAREHOLDERS EQUITY:		
Common stock, $0.20 par value; Authorized 8,000,000 shares; Issued 6,039,040 (November 30) and 6,039,040 (February 28) shares; Outstanding 3,878,307 (November 30) and 3,838,461 (February 28) shares	1,207,800	1,207,800
Capital in excess of par value	8,508,400	8,508,400
Retained earnings	17,510,400	18,062,800
	27,226,600	27,779,000
Less treasury stock, at cost	(11,742,100)	(11,883,700)
	15,484,500	15,895,300

TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$	20,602,900	$	19,941,400

See notes to condensed financial statements.

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EDUCATIONAL DEVELOPMENT CORPORATION

CONDENSED STATEMENTS OF EARNINGS (UNAUDITED)

	Three Months Ended November 30, 2009	Three Months Ended November 30, 2008	Nine Months Ended November 30, 2009	Nine Months Ended November 30, 2008
GROSS SALES	$ 13,401,900	$ 12,301,200	$ 31,631,000	$ 31,444,500
Less discounts and allowances	(3,932,500)	(3,447,600)	(10,331,100)	(9,557,000)
Transportation revenue	547,000	534,600	1,113,000	1,243,000
NET REVENUES	10,016,400	9,388,200	22,412,900	23,130,500
COST OF SALES	3,534,800	3,424,000	8,287,600	8,581,600
Gross margin	6,481,600	5,964,200	14,125,300	14,548,900
OPERATING EXPENSES:				
Operating and selling	2,105,000	2,149,800	5,267,000	5,640,700
Sales commissions	2,410,500	2,371,300	4,860,600	5,296,900
General and administrative	487,100	416,500	1,520,300	1,318,400
	5,002,600	4,937,600	11,647,900	12,256,000
OTHER INCOME	4,200	18,200	31,000	40,500
EARNINGS BEFORE INCOME TAXES	1,483,200	1,044,800	2,508,400	2,333,400
INCOME TAXES	558,100	395,300	942,500	881,200
NET EARNINGS	$ 925,100	$ 649,500	$ 1,565,900	$ 1,452,200
BASIC AND DILUTED EARNINGS PER SHARE:				
Basic	$ 0.24	$ 0.17	$ 0.41	$ 0.38
Diluted	$ 0.24	$ 0.17	$ 0.41	$ 0.38
WEIGHTED AVERAGE NUMBER OF COMMON AND EQUIVALENT SHARES OUTSTANDING:				
Basic	3,872,134	3,820,864	3,861,001	3,784,163
Diluted	3,873,296	3,821,860	3,862,104	3,785,317

See notes to condensed financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION

CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (UNAUDITED)

FOR THE NINE MONTHS ENDED NOVEMBER 30, 2009

	Common Stock (par value $0.20 per share) Number of Shares Issued	Common Stock Amount	Capital in Excess of Par Value	Retained Earnings	Treasury Stock Number of Shares	Treasury Stock Amount	Shareholders Equity
BALANCE March 1, 2009	6,039,040	$ 1,207,800	$ 8,508,400	$ 18,062,800	2,200,579	$ (11,883,700)	$ 15,895,300
Purchases of treasury stock					958	(4,400)	(4,400)
Sales of treasury stock					(40,804)	146,000	146,000
Dividends ($.55/share)				(2,118,300)			(2,118,300)
Net earnings				1,565,900			1,565,900
BALANCE November 30, 2009	6,039,040	$ 1,207,800	$ 8,508,400	$ 17,510,400	2,160,733	$ (11,742,100)	$ 15,484,500

See notes to condensed financial statements.

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EDUCATIONAL DEVELOPMENT CORPORATION

CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

FOR THE NINE MONTHS ENDED NOVEMBER 30,

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:	$ 258,100	$ 3,989,600
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(2,500)	(29,900)
Net cash used in investing activities	(2,500)	(29,900)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash received from exercise of stock options		848,700
Cash paid to acquire treasury stock	(4,400)	(776,800)
Cash received from sales of treasury stock	146,000	109,000
Borrowings under revolving credit agreement	2,200,000	
Payments under revolving credit agreement	(2,200,000)	
Dividends paid	(1,536,600)	(1,526,500)
Net cash used in financing activities	(1,395,000)	(1,345,600)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,139,400)	2,614,100
CASH AND CASH EQUIVALENTS BEGINNING OF PERIOD	2,896,200	2,440,300
CASH AND CASH EQUIVALENTS END OF PERIOD	$ 1,756,800	$ 5,054,400
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 7,300	$
Cash paid for income taxes	$ 462,500	$ 1,215,100

NOTES TO CONDENSED FINANCIAL STATEMENTS (Unaudited)

Note 1 The information shown with respect to the three and nine months ended November 30, 2009 and 2008, respectively, which is unaudited, includes all adjustments which in the opinion of Management are considered to be necessary for a fair presentation of earnings for such periods. The adjustments reflected in the financial statements represent normal recurring adjustments. The results of operations for the three and nine months ended November 30, 2009 and 2008, respectively, are not necessarily indicative of the results to be expected at year end due to seasonality of the product sales. We have evaluated all subsequent events through January 14, 2010, the date the financial statements were issued and there is no material impact on our financial statements.

These financial statements and notes are prepared pursuant to the rules and regulations of the Securities and Exchange Commission for interim reporting and should be read in conjunction with the Financial Statements and accompanying notes contained in our Annual Report to Shareholders for the Fiscal Year ended February 28, 2009.

Note 2 Effective June 30, 2009 we signed an Eleventh Amendment to the Credit and Security Agreement with Arvest Bank which provided a reduced $2,500,000 line of credit through June 30, 2010. Interest is payable monthly at the greater of 5.00% or the Wall Street Journal prime-floating rate minus 0.75% (3.25% at November 30, 2009) and borrowings are collateralized by substantially all the assets of the Company. At November 30, 2009 the Company had no debt outstanding under this agreement. Available credit under the revolving credit agreement was $2,500,000 at November 30, 2009.

This agreement also contains a provision for our use of the Bank s letters of credit. The Bank agrees to issue commercial or standby letters of credit provided that none will have an expiry date later than June 30, 2010 and that the sum of the line of credit plus the letters of credit would not exceed the borrowing base in effect at the time. For the quarter ended November 30, 2009, we had no letters of credit outstanding.

Note 3 Inventories consist of the following:

		2009		
		November 30,		February 28,
Current:				
Book inventory	$	11,304,900	$	10,327,600
Inventory valuation allowance		(29,500)		(25,000)
Inventories net current	$	11,275,400	$	10,302,600
Noncurrent:				
Book inventory	$	873,000	$	913,000
Inventory valuation allowance		(327,000)		(345,000)
Inventories net noncurrent	$	546,000	$	568,000

We occasionally purchase book inventory in quantities in excess of what will be sold within the normal operating cycle due to minimum order requirements of our primary supplier. These amounts are included in non-current inventory.

Significant portions of our inventory purchases are concentrated with an England-based publishing company. Purchases from this company were approximately $1.8 million and $1.7 million for the three months ended November 30, 2009 and 2008, respectively. Total inventory purchases from all suppliers were approximately $2.2 million and $2.4 million for the three months ended November 30, 2009 and 2008, respectively.

For the nine months ended November 30, 2009 and 2008, respectively, purchases from this company were approximately $8.3 million and $5.6 million. Total inventory purchases from all suppliers were approximately $10.8 million and $7.1 million for the same respective periods.

Note 4 Basic earnings per share (EPS) is computed by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted EPS is based on the combined weighted average number of common shares outstanding and dilutive potential common shares issuable which include, where appropriate, the assumed exercise of options.

In computing diluted EPS we have utilized the treasury stock method.

The computation of weighted average common and common equivalent shares used in the calculation of basic and diluted earnings per share (EPS) is shown below.

	Three Months Ended November 30, 2009	Three Months Ended November 30, 2008	Nine Months Ended November 30, 2009	Nine Months Ended November 30, 2008
Earnings Per Share:				
Net earnings applicable to common shareholders	$ 925,100	$ 649,500	$ 1,565,900	$ 1,452,200
Shares:				
Weighted average shares outstanding - basic	3,872,134	3,820,864	3,861,001	3,784,163
Assumed exercise of options	1,162	996	1,103	1,154
Weighted average shares outstanding - diluted	3,873,296	3,821,860	3,862,104	3,785,317
Basic Earnings Per Share	$ 0.24	$ 0.17	$ 0.41	$ 0.38
Diluted Earnings Per Share	$ 0.24	$ 0.17	$ 0.41	$ 0.38

In April 2008, our Board of Directors authorized us to purchase up to 500,000 additional shares of our common stock under a plan initiated in 1998. This plan has no expiration date. During the third quarter of fiscal year 2010, we repurchased 148 shares of common stock. The maximum number of shares that may be repurchased in the future is 433,194.

<u>Note 5</u> We account for stock-based compensation whereby share-based payment transactions with employees, such as stock options and restricted stock, are measured at estimated fair value at date of grant and recognized as compensation expense over the vesting period.

<u>Note 6</u> Freight costs and handling costs incurred are included in operating & selling expenses and were $793,500 and $801,300 for the three months ended November 30, 2009 and 2008, respectively.

For the nine months ended November 30, 2009 and 2008, respectively, freight and handling costs incurred are included in operating & selling expenses and were $1,781,200 and $1,908,300.

<u>Note 7</u> We have two reportable segments: Publishing and Usborne Books and More (UBAM). These reportable segments are business units that offer different methods of distribution to different types of customers. They are managed separately based on the fundamental differences in their operations. The Publishing Division markets its products to retail accounts, which include book, school supply, toy and gift stores and museums, through commissioned sales representatives, trade and specialty wholesalers and an internal telesales group. The UBAM Division markets its product line through a network of independent sales consultants through a combination of direct sales, home shows, book fairs and the Internet.

The accounting policies of the segments are the same as those of the rest of the Company. We evaluate segment performance based on earnings (loss) before income taxes of the segments, which is defined as segment net sales reduced by direct cost of sales and direct expenses. Corporate expenses, depreciation, interest expense and income taxes are not allocated to the segments, but are listed in the other row. Corporate expenses include the executive department, accounting department, information services department, general office management and building facilities management. Our assets and liabilities are not allocated on a segment basis.

Information by industry segment for the three and nine months ended November 30, 2009 and 2008 follows:

NET REVENUES

	Three Months Ended November 30,				Nine Months Ended November 30,			
	2009		2008		2009		2008	
Publishing	$	2,756,800	$	2,030,800	$	7,380,700	$	6,267,400
UBAM	$	7,259,600	$	7,357,400	$	15,032,200	$	16,863,100
Other	$		$		$		$	
Total	$	10,016,400	$	9,388,200	$	22,412,900	$	23,130,500

EARNINGS (LOSS) BEFORE INCOME TAXES

	Three Months Ended November 30,				Nine Months Ended November 30,			
	2009		2008		2009		2008	
Publishing	$	1,048,900	$	671,700	$	2,584,400	$	2,010,900
UBAM	$	1,496,800	$	1,326,500	$	3,027,300	$	3,185,500
Other	$	(1,062,500)	$	(953,400)	$	(3,103,300)	$	(2,863,000)
Total	$	1,483,200	$	1,044,800	$	2,508,400	$	2,333,400

Note 8 The Financial Accounting Standards Board (FASB) periodically issues new accounting standards in a continuing effort to improve standards of financial accounting and reporting. We have reviewed the recently issued pronouncements and concluded that the following new accounting standards are applicable to us.

In June 2009 the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) 105, Generally Accepted Accounting Principles . ASC 105 establishes the Codification as the sole source of authoritative accounting principles to be applied in the preparation of financial statements in conformity with GAAP. The adoption of this statement did not have a material impact on the Company s financial position or results of operations.

ITEM 2 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Factors Affecting Forward Looking Statements

MD&A contains statements that are forward-looking and include numerous risks which you should carefully consider. Additional risks and uncertainties may also materially and adversely affect our business. You should read the following discussion in connection with our financial statements, including the notes to those statements, included in this document. Our fiscal years end on February 28.

Overview

We operate two separate divisions, Publishing and Usborne Books and More (UBAM), to sell the Usborne and Kane/Miller lines of children s books. These two divisions each have their own customer base. The Publishing Division markets its products on a wholesale basis to various retail accounts. The UBAM Division markets its products to individual consumers as well as school and public libraries.

The following table shows consolidated statements of income data as a percentage of net revenues.

Earnings as a Percent of Net Revenues

	Three Months Ended November 30, 2009	2008	Nine Months Ended November 30, 2009	2008
Net revenues	100.0%	100.0%	100.0%	100.0%
Cost of sales	35.3%	36.5%	37.0%	37.1%
Gross margin	64.7%	63.5%	63.0%	62.9%
Operating expenses:				
Operating & selling	21.0%	22.9%	23.5%	24.4%
Sales commissions	24.1%	25.3%	21.7%	22.9%
General & administrative	4.9%	4.4%	6.8%	5.7%
Total operating expenses	50.0%	52.6%	52.0%	53.0%
Income from operations	14.7%	10.9%	11.0%	9.9%
Other income	0.0%	0.2%	0.2%	0.2%
Earnings before income taxes	14.7%	11.1%	11.2%	10.1%
Income taxes	5.5%	4.2%	4.2%	3.8%
Net earnings	9.2%	6.9%	7.0%	6.3%

Operating Results for the Three Months Ended November 30, 2009

We earned income before income taxes of $1,483,200 for the three months ended November 30, 2009 compared with $1,044,800 for the three months ended November 30, 2008.

Revenues

	For the Three Months Ended November 30, 2009	2008	$ Increase/ (decrease)	% Increase/ (decrease)
Gross sales	$ 13,401,900	$ 12,301,200	$ 1,100,700	8.9%
Less discounts & allowances	(3,932,500)	(3,447,600)	(484,900)	14.1%
Transportation revenue	547,000	534,600	12,400	2.3%
Net revenues	$ 10,016,400	$ 9,388,200	$ 628,200	6.7%

The UBAM Division s gross sales decreased $402,300 during the three month period ending November 30, 2009 when compared with the same quarterly period a year ago. This decrease consists primarily of decreases in 12% school and library sales, offset by an increase in internet sales of 19% and a 5% increase in direct sales. Home parties remained flat between periods. The decline in school and library sales is attributed to a 27% decline in the total number of orders offset by a 10% increase in the average order size.

The Publishing Division s gross sales increased $1,503,000 during the three month period ending November 30, 2009 when compared with the same quarterly period a year ago. We attribute this to a 54.5% increase in sales to major national accounts, a 28.4% increase in inside sales accounts and a 27.9% increase in sales to smaller retail stores.

The UBAM Division s discounts and allowances were $1,008,500 and $1,303,300 for the quarterly periods ended November 30, 2009 and 2008, respectively. The UBAM Division is a multi-level selling organization that markets its products through independent sales representatives (consultants). Sales are made to individual purchasers and school and public libraries. Most sales in the UBAM Division are at retail. As a part of the UBAM Division s marketing programs, discounts between 40% and 50% of retail are offered on selected items at various times throughout the year. The discounts and allowances in the UBAM Division will vary from year to year depending upon the marketing programs in place during any given year. The UBAM Division s discounts and allowances were 13.0% and 16.0% of UBAM s gross sales for the quarterly periods ended November 30, 2009 and 2008, respectively.

The Publishing Division s discounts and allowances are a much larger percentage of gross sales than discounts and allowances in the UBAM Division due to the different customer markets that each division targets. The Publishing Division s discounts and allowances were $2,924,000 and $2,144,300 for the quarterly periods ended November 30, 2009 and 2008, respectively. The Publishing Division sells to retail book chains, regional and local bookstores, toy and gift stores, school supply stores and museums. To be competitive with other wholesale book distributors, the Publishing Division sells at discounts between 48% and 55% of the retail price, based upon the quantity of books ordered and the dollar amount of the order. The Publishing Division s discounts and allowances were 51.6% of Publishing s gross sales for the quarterly period ended November 30, 2009 and 51.5% for the quarterly period ended November 30, 2008.

Expenses

	For Three Months Ended November 30, 2009	2008	\$ Increase/ (decrease)	% Increase/ (decrease)
Cost of sales	\$ 3,534,800	3,424,000	\$ 110,800	3.2%
Operating & selling	2,105,000	2,149,800	(44,800)	(2.1)%
Sales commissions	2,410,500	2,371,300	39,200	1.7%
General & administrative	487,100	416,500	70,600	17.0%
Total	\$ 8,537,400	\$ 8,361,600	\$ 175,800	2.1%

Cost of sales increased 3.2% for the three months ended November 30, 2009 when compared with the three months ended November 30, 2008. Cost of sales as a percentage of gross sales was 26.4% for the three months ended November 30, 2009 and for the three months ended November 30, 2008 was 27.8%. Cost of sales is the inventory cost of the product sold, which includes the cost of the product itself and inbound freight charges. Purchasing and receiving costs, inspection costs, warehousing costs, and other costs of our distribution network are included in operating and selling expenses, not in cost of sales. These costs totaled \$306,000 in the quarter ended November 30, 2009 and \$289,200 in the quarter ended November 30, 2008.

In addition to costs associated with our distribution network (noted above), operating and selling costs include expenses of the Publishing Division, the UBAM Division and the order entry and customer service functions. Operating and selling expenses as a percentage of gross sales were 15.7% for the quarter ended November 30, 2009 and 17.5% for the quarter ended November 30, 2008.

Sales commissions in the Publishing Division increased 41.4% to \$47,800 for the three months ended November 30, 2009. Publishing Division sales commissions are paid on net sales and were 1.7% of net sales for the three months ended November 30, 2009 and 1.7% of net sales for the three months ended November 30, 2008. Sales commissions in the Publishing Division fluctuate depending upon the amount of sales made to our house accounts, which are the Publishing Division s largest customers and do not have any commission expense associated with them, and sales made by our outside sales representatives.

Sales commissions in the UBAM Division increased minimally to \$2,362,700 for the three months ended November 30, 2009 as a result of increases in internet sales, home show sales and direct sales. UBAM Division sales commissions are paid on retail sales and were 40.1% of retail sales for the three months ended November 30, 2009 and 36.3% of retail sales for the three months ended November 30, 2008. The fluctuation in the percentages of commission expense to retail sales is the result of the type of sale. Home shows, book fairs, school and library sales and direct sales have different commission rates. Also contributing to the fluctuations in the percentages is the payment of overrides and bonuses, both dependent on consultants monthly sales and downline sales.

Our effective tax rate was 37.6% and 37.8% for the quarterly periods ended November 30, 2009 and 2008, respectively. These rates are higher than the federal statutory rate due to state income taxes.

Operating Results for the Nine Months Ended November 30, 2009

We earned income before income taxes of $2,508,400 for the nine months ended November 30, 2009 compared with $2,333,400 for the nine months ended November 30, 2008.

Revenues

	For the Nine Months Ended November 30, 2009	2008	$ Increase/ (decrease)	% Increase/ (decrease)
Gross sales	$ 31,631,000	$ 31,444,500	$ 186,500	0.6%
Less discounts & allowances	(10,331,100)			